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SUBJECT: LOWER NORTH ECONOMIES CONTRACTING; POLITICAL DIVIDES
PERSIST

REF: 08 CHIANG MAI 72 (AS PRICES RISE, NORTHERN RICE BOWL EXPANDS)

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Sensitive but Unclassified; Please handle accordingly.

Summary and Comment

¶1. (SBU) The economy in Phitsanulok remains stable, providing a solid economic foundation for the region, despite the global economic crisis causing many workers to return to the lower north. Although the agricultural sector in the region's economic hub of Phitsanulok is reportedly accommodating returning workers, villagers who travel seasonally as unskilled workers to Bangkok report the impact of the economic crisis is limiting opportunities there. While the crisis' impacts on divergent socioeconomic communities in the lower north vary, it does not appear to be exacerbating the existing political divide. Like elsewhere in the north, personal relationships and cash payouts rather than political ideology determine how locals vote, red or yellow.

¶2. (SBU) Comment: While the global economic crisis is certainly having some impacts in the lower north, the real economic challenges that villagers face are long-term problems, such as lack of access to irrigation and steady government financing of local projects. With less access to capital, poorer localities are generally still loyal to the former Thaksin administration that supported such rural development initiatives, though money and personalities are the main motivators for voters in this region. If recent stimulus efforts to finance infrastructure projects across the country by current Prime Minister Abhisit are well received in the lower north, red shirt loyalty in the region could decline. End Summary and Comment.

Despite Crisis, A Resilient Lower North Economy

¶3. (U) Although the economic crisis is negatively affecting some parts of the lower north, the local economy is generally resilient, businessmen and villagers in Phitsanulok Province told econ staff during a June 24-26 trip. Phitsanulok city is primarily supported by currently stable economic sectors such as agriculture, education, and health care. Phitsanulok is considered a hub for the lower-north in each of these sectors providing consistent incomes that fuel the local economy. In semi-rural parts of the province, farmers reported that they are content with current agricultural prices and are not constrained by the global crisis.

¶4. (U) The primary effect of the crisis in the lower north is an increase in labor supply due to laborers returning home after

being displaced from the suffering export-oriented sectors based in the Bangkok area. However, even this added supply of workers remains a manageable issue. The labor-intensive agricultural industry, for example, appears able to absorb returning workers as long as they are willing to perform manual labor and the farming community they live in has sufficient access to irrigation systems to expand their production.

Policy Efforts Maintain Stable Economy

15. (U) Phitsanulok villagers expressed appreciation for the government's price floor on rice, a policy the farmers believe allows the region to adapt to the changing economic environment. Presently, farmers are guaranteed a minimum price of 9,500 THB (280 USD) per metric ton, while the market price is approximately 9,000 THB (265 USD). Farmers still complain that the price guarantees cannot compare to last year's high commodity prices, which peaked at 14,500 THB (425 USD) per metric ton (reftel). Moreover, farmers continue to comment that profits are low due to the high prices of inputs such as fertilizer and pesticides.

16. (U) Other nationwide stimulus policies have lessened economic burdens in the urban parts of the lower north. The recent stimulus package provided a 2,000 baht (\$59) one-time payment to each employee of a formal business who registered for social welfare and made less than 15,000 THB (442 USD) per month. Even though the largest factory in the city had a round of layoffs and wage cutbacks, its workers received the handout. Also, the central government is trying to improve human capital through low skilled workers by providing job training for workers returning to the region. Each trainee receives room and board as well as 50 baht (1.50 USD) per diem per day.

17. (U) One village headman near Phitsanulok city stated that

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the central government is now supporting new initiatives at the local level that provide farmers with machinery and training to manufacture organic fertilizer. These initiatives simultaneously allow locals to decrease their demand for expensive chemical fertilizers, while raising local demand for labor to produce the organic fertilizer (balancing off the labor supply increase caused by returning laborers). Although the village headman was concerned about accommodating all of the young laborers coming back to his village after being laid off in Bangkok, he seemed confident in providing these needy citizens with work through these new development initiatives and the generally labor intensive agriculture sector.

In (Yellow) Urban Areas, Democrats Get Credit for Econ Strength

18. (U) Due to the stimulus initiatives, villagers residing in agricultural, suburban communities of Phitsanulok stated that they were not concerned about the economic crisis and that they are more than capable of surviving on what they have now, a philosophy they associate with King Bhumibol's "sufficiency economy" concept. Moreover, many communities consider farming a way of life, and, no matter what the economic situation, they would plant rice regardless.

19. (SBU) Acceptance of the current economic environment in Phitsanulok is most evident among supporters of current Prime Minister Abhisit and the Democrat Party-led government, most of whom reside in Phitsanulok city and the immediate surrounding area. Businessmen and middleclass locals said they are also pleased with Abhisit's performance because they believe their tax payments will be funneled into more business-friendly policies, rather than into subsidies that benefit farmers. However, businessmen said they remain frustrated with the

airport closures in late 2008 that damaged investor confidence in the Thai market.

In Remote (Red) Areas, Economic Hardship is Nothing New

¶10. (SBU) While urban and suburban areas of the lower north are coping economically, poor rural villages with minimal levels of economic development are still struggling, though their barriers to income generation are long-standing problems that predate the economic crisis. Growth under former PM Thaksin fueled development initiatives in these rural communities, an era which is still fondly remembered here. With an unstable political environment and worsening economy, the current government, however, cannot or, some would say, will not support the countryside's development the way Thaksin-centric political parties have. The backlash against this perceived lack of central government support is evident by the red shirt protests around Thailand as well as the comments by villagers in the hinterland of Phitsanulok.

¶11. (SBU) Interviews with villagers in the outlying sub-district of Suan Mieng indicate that not all of Phitsanulok province is faring well during this economic downturn. One sub-district organization official stated that administration revenues that fund the local government and development initiatives were cut from around 11 million THB (324,000 USD) in previous years down to only 3 million THB (88,500 USD) in 2009. This 72 percent decrease in operating revenue halted almost all local development initiatives and reduced opportunities for employment, which were already bleak due to a lack of access to irrigation. Farmers can harvest rice, cassava, or corn only once a year here, so income is already much lower, while transportation costs are higher. Falling commodity prices further exacerbate the situation as these villagers survive only on what they produce. Furthermore, villagers in this rural area do not benefit from the government's rice price guarantee program because farmers cannot produce during the dry season harvest (when guaranteed prices exceed market prices) due to the lack of an irrigation system. Instead, villagers travel to Bangkok during the dry season to work as street merchants. However, those jobs are not as profitable due to the economic crisis, they said.

¶12. (SBU) The economic hardship of these rural locales generally translates into support for Thaksin and the redshirt movement. For example, one prominent villager stated that Abhisit's administration is only concerned about helping the businessmen and people who already have money. This villager spoke of

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agricultural middlemen and rice mill owners who benefit from government subsidies and stimulus, while the typical farmer received no benefits and was left to fend for him or herself. Additionally, since this sub-district did not have any registered businesses, the government stimulus of 2,000 THB (59 USD) did not reach any of the local people. This local leader was exceptionally angry, believing that his community would not receive many benefits from the central government's economic stimulus investment plan.

¶13. (SBU) Since this village is not receiving many central government benefits, many needy villagers are either selling their land to outsiders or borrowing from the local community fund, which has performed well over the past few years and earned interest. Land sales are at an all time high in this community, as locals see more opportunity to work in Bangkok despite the economic crisis and sell their land off to people from the South who come up to plant rubber trees (septel), leaving them without almost any assets at all. Moreover, it is expected that as villagers borrow from the community fund, interest returns will decrease while the returns from the loan

will be lower as commodity prices are low and the risk of investing is greater during the economic crisis.

¶14. (SBU) Due to the lack of job opportunities in this community, many of the locals leave to go find work in Bangkok or other countries. A number of villagers we spoke with stated that after the rice planting season, they will go back to Bangkok to sell coffee or grilled food stuffs, or work on any remaining construction sites. Also of note is that villagers from this community said that they would attend both red and yellow shirt rallies as both would pay between 500 to 1,000 THB (15-30 USD) a day and provide meals. Our contact noted that the yellow shirts (of the People's Alliance for Democracy) pay more than Thaksin's red shirts for participating in Bangkok protests, indicating that, although Thaksin is still revered here, poor villagers are indifferent to the ruling coalition and are most concerned with personal welfare instead of political ideology.

¶15. (SBU) Due to the economic downturn, jobs in Bangkok are less plentiful while low skilled labor positions offer lower wages, according to Phitsanulok villagers who travel there for work. This has led the most desperate to engage in more risky businesses. Our contact noted that drug sales and abuse are on the rise in his hometown. He stated that many young adults, whose parents are away working in Bangkok or other countries, will travel to the Thai-Burmese border to purchase methamphetamine type stimulants (yaa-baa) to sell in the village at a profit and to consume. So not only are youth disadvantaged with a lack of job opportunities, but village leaders are concerned that a rise in drug use will further eat up whatever money they do have and destroy their opportunities for the future.

¶16. (U) This cable was coordinated with Embassy Bangkok.
ANDERSON